



New Issue: Moody's assigns Aa2 rating to City of Waterloo's (IA) \$8 million GO Bonds, Series 2012A, \$5.5 million GO Bonds, Series 2012B, and \$5.2 million GO Bonds, Series 2012C

Global Credit Research - 31 May 2012

Aa2 rating maintained on \$87.7 million of post-sale GOULT debt

WATERLOO (CITY OF) IA
Cities (including Towns, Villages and Townships)
IA

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, Series 2012B		Aa2
Sale Amount	\$5,470,000	
Expected Sale Date	06/05/12	
Rating Description	General Obligation	
General Obligation Bonds, Series 2012A		Aa2
Sale Amount	\$8,040,000	
Expected Sale Date	06/05/12	
Rating Description	General Obligation	
General Obligation Bonds, Taxable Series 2012C		Aa2
Sale Amount	\$5,205,000	
Expected Sale Date	06/05/12	
Rating Description	General Obligation	

Moody's Outlook N/A

Opinion

NEW YORK, May 31, 2012 --Moody's Investors Service has assigned a Aa2 rating to the City of Waterloo's (IA) \$8 million General Obligation Bonds, Series 2012A, \$5.5 million General Obligation Refunding Bonds, Series 2012B, and \$5.2 million General Obligation Bonds, Taxable Series 2012C. Moody's maintains a Aa2 rating on the city's outstanding general obligation debt. Post-sale, the city will have \$87.7 million of outstanding general obligation unlimited tax debt.

SUMMARY RATING RATIONALE

The bonds are secured by the city's general obligation unlimited tax pledge. Proceeds of the Series 2012A bonds will be used for various capital improvements, equipment and vehicle purchases, and urban renewal projects. Proceeds of the Series 2012B bonds will be used to current refund a portion of the city's Series 2003A and Series 2005A bonds for interest savings. Proceeds of the Series 2012C bonds will be used to finance various urban renewal projects and current refund a portion of the city's Series 2005B bonds for interest savings. The Aa2 rating reflects the city's large tax base with continued moderate growth, below average resident income levels, sound financial operations that are supported by healthy reserves, and average debt burden with rapid repayment of principal.

STRENGTHS

- Ongoing growth in the city's taxable valuations and local economy
- Sound financial operations supported by healthy General Fund reserves

CHALLENGES

- Limited flexibility to raise revenues to support general operations
- Somewhat elevated unemployment compared to statewide figure
- Relatively low resident income levels

DETAILED CREDIT DISCUSSION

LARGE NORTHEAST IOWA TAX BASE BENEFITS FROM REGIONAL ECONOMY

The city's tax base is expected to exhibit modest growth over the near to medium term, given recent growth trends and its role as a regional trade and manufacturing center. Located in northeast Iowa, the city is the county seat of Black Hawk County (general obligation rated Aa2) and serves as a regional commercial and manufacturing hub for surrounding communities. The city's large \$3.6 billion tax base has grown at an average annual rate of 5.2% over the past five years. The city's economy is tied closely to that of its adjacent neighbor, the City of Cedar Falls (Aa1), which is home to the University of Northern Iowa (A1/stable outlook; 11,571 students). The two cities benefit from a diverse economic and employment base that includes manufacturing, education, gaming, and health care operations among their largest employers. Deere and Company (senior unsecured rated A2/stable outlook) is the city's largest employer with 5,600 employees and the fourth largest taxpayer at 1.2% of assessed valuation. Deere has three facilities in Waterloo and, in recent years, has made significant investments in its tractor manufacturing facility, foundry, and drive train operations facility. The city is also home to a stable health care and education presence that includes Wheaton Franciscan Healthcare (2,680 FTEs) and Allen Memorial Hospital (2,080), as well as the main campus of Hawkeye Community College (Aa2/positive outlook; 5,700 students). These institutions provide an additional measure of stability to the base.

The city continues to promote urban renewal projects, concentrating on a number of large-scale developments to enhance its downtown. At the center of these developments is the Riverfront Renaissance Plan which will be completed this summer and incorporates bike trails, a youth pavilion, amphitheater, riverwalk, commercial space and restaurants, and contains plans for riverfront housing as well. Construction has also begun for a new \$22 million downtown sports complex, which is being financed primarily with private funds. The city continues efforts to redevelop the Rath meatpacking plant campus that lies along the Cedar River. The redevelopment includes the creation of a human services campus, which includes a correctional facility and human services office, and a new food bank which is currently under construction.

The Isle of Capri (corporate family rating B2/stable outlook) Casino and Hotel is the city's second largest property taxpayer at 3.2% of the base and has spurred additional surrounding development, including several recent new retail establishments and housing developments. While residential development has been relatively slow in recent years, management reports housing starts have picked up and median home prices have remained stable throughout the economic downturn. Income statistics for the city are below state and national figures, with per capita and median family income levels at approximately 80% of national levels, respectively, according to the 2006-2010 American Community Survey. The city's unemployment rate of 6.7% in March 2012 is above the state rate of 5.7%, but below the national rate of 8.4% for the same time period.

SOUND FINANCIAL OPERATIONS CHARACTERIZED BY HEALTHY CASH RESERVES AND PRUDENT FISCAL MANAGEMENT

The city's financial operations are expected to remain sound due to prudent fiscal management and the existence of healthy cash reserves. Over the last nine consecutive years, the city has posted operating surpluses, increasing total General Fund reserves to \$17.9 million, or a healthy 39.7% of revenues at the end of fiscal 2011. Unrestricted cash comprised the majority of the city's fund balance at \$17.9 million, or 38.2% of revenues. The city has a formal policy of maintaining total reserves equivalent to at least 5% of revenues. Officials also report an informal target of achieving an unassigned General Fund balance of 25% of revenues, and the city continues to work to achieve that goal. Fiscal 2011 unassigned fund balance was \$8.4 million, or a solid 18.7% of revenues.

The city's adopted budget for fiscal 2012 included the use of \$600,000 in General Fund reserves due to a 27th pay period and increased pension costs. The city contributes to two state multi-employer pension plans for its employees, and the required employer contributions for both plans increased in fiscal 2012. Based on year-to-date performance, officials report that the city may instead use only a modest \$200,000. To reduce the budget gap, the city has eliminated four senior administrative positions and also benefitted from positive revenue variances. Looking ahead to fiscal 2013, the city's adopted budget includes appropriation of \$200,000 of fund balance. Officials report that the city continues to look for ways to reduce expenditures in order to limit the amount of fund balance used by year-end.

Property taxes comprise the majority of the city's General Fund operating revenues, accounting for 57.9% of fiscal 2011 revenues, while state aid revenues are minimal and made up less than 4.6%. The city is taxing at its General Fund levy limit of \$8.10 per \$1,000 of assessed valuation and continues to utilize the \$0.27 Emergency Levy to support General Fund operations. Positively, Iowa cities have the ability to use an unlimited employee benefits levy for health insurance and pension costs, two potential pressures. Additionally, the city can levy a gas and electric franchise fee of up to 5% to generate additional revenues if needed.

MANAGEABLE DEBT BURDEN WITH RAPID PRINCIPAL AMORTIZATION

We anticipate the city's average debt profile will remain manageable despite additional borrowing plans due to rapid principal amortization and continued growth expected in the tax base. At 2% of full valuation (net of sewer utility supported debt), the city's direct debt burden accounts for the majority of its overall debt burden of 2.6%. Principal amortization is rapid, with 88% expected to be repaid within ten years. The city covers some of its capital needs on a pay-as-you-go basis, utilizing receipts from a one cent local option sales tax for road improvements and new road construction. The city also issues debt annually as part of its capital improvement program. The city is currently in discussions with the Iowa Department of Natural Resources over sanitary sewer improvements related to the city's combined sewers and expects to begin issuing debt for these projects in the near to medium term. The city does not yet have an estimate of the total amount of borrowing that will be required for this project. All of the city's outstanding debt is fixed rate, and the city is not a party to any interest rate swap agreements.

WHAT COULD CHANGE THE RATING - UP

- Continued growth in the city's tax base and strengthening of the demographic profile
- Maintenance of healthy financial reserves and liquidity, most notably in the unassigned General Fund balance

WHAT COULD CHANGE THE RATING - DOWN

- Deterioration of the tax base to a level inconsistent with similarly-rated entities
- Material declines in the city's financial reserves

KEY STATISTICS

2010 Census population: 68,406 (0.5% decline since 2000)

2010 Full valuation (2012 collection year): \$3.6 billion (5.2% five-year average annual increase)

Estimated full value per capita: \$52,803

2006-2010 Per capita income (as % of U.S.): 80.7% (87.1% of state)

2006-2010 Median family income (as % of U.S.): 79.3% (80.8% of state)

City unemployment (March 2012): 6.7% (Iowa: 5.7%; U.S.: 8.4%)

Fiscal 2011 General Fund balance: \$17.9 million (39.7 % of revenues)

Fiscal 2011 unassigned General Fund balance: \$8.4 million (18.7% of revenues)

Overall debt burden: 2.6% (2% direct)

Principal amortization of general obligation debt (10 years): 88%

Post-sale general obligation debt outstanding: \$87.7 million

PRINCIPAL METHODOLOGY USED

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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